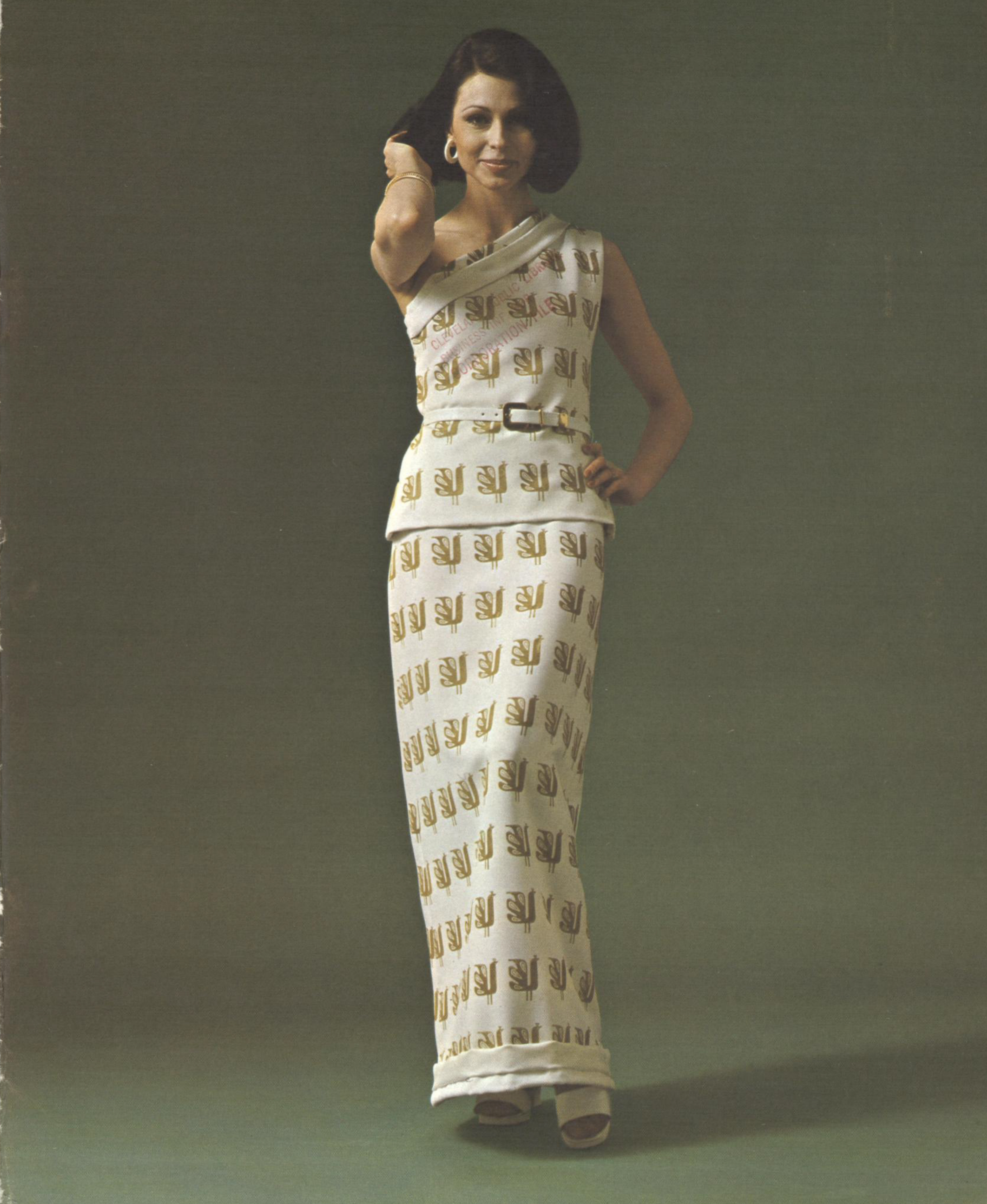
YOUNKER BROTHERS, INC. 1973 ANNUAL REPORT FOR THE FISCAL YEAR ENDED JANUARY 31, 1974



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Younkers 1973 Annual Report

TO OUR SHAREHOLDERS:

In our 1972 annual report, we stated "Younkers' sales goal for 1973 will be $100,000,000." This we were able to accomplish during 1973. My "hat" is off to the Younker organization for reaching this exciting plateau. We were able to attain this goal with an increase in sales from $90,766,273 to $100,074,443 or 10.3%. Our pre tax profits for 1973 totaled $8,310,346 as compared to $9,534,487 in 1972. However, our 1972 pre tax earnings included the profit of $1,924,875 on the sale of 112,500 shares of General Growth Properties stock. Without that unusual item the 1972 pre tax earnings totaled $7,609,612 compared to the $8,310,346 in 1973. Equally important is that the net operating profit for Younkers reached an all-time high — $4,194,346 after taxes — for a 4.19% return on sales. Indeed we are pleased.

This record-setting performance was accomplished during a rather difficult period. The profit limitations of Phase IV, the energy crisis, merchandise shortages, the restrictive curbing on the amount of finance charges we are allowed to collect on our charge accounts, all were problems, but our organization rose to the occasion just as it has done in the past.

The energy crisis is here. We are asked what effect this will have on the performance of this business. One can only speculate at this point in time. Our own conclusion is that the overall effect will be minimal. We are making every practical effort to conserve energy.

Our economic outlook here in Iowa and its adjoining states looks strong to us. Farm income is at a high level. This in turn affects many related industries, thus benefiting service and retail sales in our area.

We are very pleased with our new 100,000 square foot store in Davenport, Iowa, which opened in July 1973. We are equally pleased with the most recent new 80,000 square foot store which opened February 27, 1974, in Moline, Illinois. These two units in the Quad City area are important additions to Younkers, giving us strong representation in this large important retail marketing area.

A new 100,000 square foot Store For Homes — which will be a full-service home furnishings operation — will be ready to open this fall in the Merle Hay Mall Shopping Center in Des Moines.

Construction is under way in South Des Moines at Army Post Plaza for another new Younkers 100,000 square foot store. In addition, we have commitments to go forth and develop a new 100,000 square foot store in Northeast Des Moines. All in all, this will give us an additional total of 300,000 square feet of retail space in the suburban Des Moines area. This space, along with our excellent downtown store in Des Moines, does enable us to bring large assortments of merchandise coupled with excellent service to our customers in the Central Iowa region.

We have purchased 183,431 shares of Younker Common stock for our treasury, including 36,500 shares purchased since January 31, 1974. We feel that these shares were a good buy based on potential future value and can be used for possible future corporate purposes.

We now have purchased 21% of the outstanding shares of the Paul Harris Stores of Indianapolis, Indiana. These are Junior oriented ready-to-wear stores appealing to customers who are young and sophisticated. Paul Harris operates 56 stores at the present time with locations spread throughout Indiana, Ohio, Illinois and most recently in Iowa. Their plans call for the opening of 9 new units in the current year including stores in the Chicago and St. Louis area. We are approaching this as a long-term investment with a fine potential for future growth.

In many ways, this is a period of uncertainty. People are not relaxed, they are not comfortable, and, when this occurs, their mood to "buy" could taper off. Hence, we do think that 1974 will be a year of challenge, and that retail sales increases are going to be difficult to obtain. Our strength lies in the strong outlook for our farm income during 1974 in this region. We expect to perform better in 1974 than most retailers who are located in other parts of the United States. We are planning increases in sales in our existing stores and probing in search of new store locations.

The first Younkers store was started in Keokuk, Iowa, in 1856. The Younker brothers had the foresight to go where the opportunities for growth were greatest. This is the same philosophy your management is following today.

In closing, a word of thanks to our Younker associates whose conscientious efforts have made possible the results for this year. To our customers and suppliers, we extend our gratitude for your continued loyalty and support.

In behalf of the Board of Directors
of Younker Bros., Inc.

Charles Duchen
President

10 YEAR HIGHLIGHTS

Year Ended Jan. 31	Net Sales Including Leased Departments	Earnings Before Income Taxes	Net Earnings	Earnings Per Share of Common Stock	Dividends Paid Per Share of Common Stock	Net Assets Per Share of Common Stock
1965	$66,973,075	$4,580,620	$2,420,544	$1.54	$ .61	$13.78
1966	69,859,342	5,152,292	2,796,292	1.80	.67	14.91
1967	71,827,336	5,616,957	2,976,957	1.92	.76	16.07
1968	73,548,201	6,255,583	3,209,583	2.08	.82	17.36
1969	79,120,338	6,479,381	3,472,399	2.27	.90	18.77
1970	83,542,485	7,475,139	3,893,227	2.40	.90	20.63
1971	83,300,527	7,807,101	3,544,127	2.15	.98	22.44
1972	86,500,559	7,216,054	3,729,054	2.27	1.05	23.66
1973	90,766,273	9,534,487	5,218,487	3.18	1.29	26.58
1974	100,074,443	8,310,346	4,194,346	2.67	1.70	28.95

Net earnings for the years ended January 31, 1969, 1970, and 1971 include extraordinary gains or (loss) of $350,018, $467,088, and ($224,974) respectively. Earnings per share before these items were $2.03, $2.10 and $2.29.

Dividends–1973 and 1974 per share amounts are computed using the market value of shares distributed during each year. The amount using the carrying value of shares distributed and accrued in 1973 is $.41 per average share outstanding. Cash dividends in 1974 amounted to $.54 per average share outstanding.

FINANCIAL HIGHLIGHTS

	Years ended January 31, 1974	1973
OPERATING RESULTS		
Net sales (including leased departments)	$100,074,443	$90,766,273
Net earnings:		
Amount	4,194,346	5,218,487
Per share of common stock	2.67	3.18
Weighted average number of common shares outstanding during the year	1,513,633	1,592,714
DISTRIBUTION OF EARNINGS		
Dividends to preferred stockholders	150,710	150,710
Dividends to common stockholders:		
Paid in cash	824,266	—
Paid in shares of General Growth Properties:		
1973 — including cash for fractional shares, market value of $2,048,225	—	366,113
Declared and accrued in January, 1973, distributed during year ended January 31, 1974, market value of $1,821,816	—	290,000
Earnings reinvested in the business	3,219,370	4,411,664
Dividends per share of common stock (including market value of shares distributed during each year)	1.70	1.29
FINANCIAL POSITION		
Working capital	32,892,287	38,313,062
Current assets per dollar of current liabilities	3.72 to 1	4.23 to 1
Equity of common stockholders	41,885,111	42,368,721
Net asset value per share of common stock	28.95	26.58

OFFICERS OF YOUNKER BROTHERS, INC.

CHARLES DUCHEN*
President and Director

STANLEY H. KRUM
Vice-President
and Director

FRED A. GLYNN
Sr. Vice-President
and Director

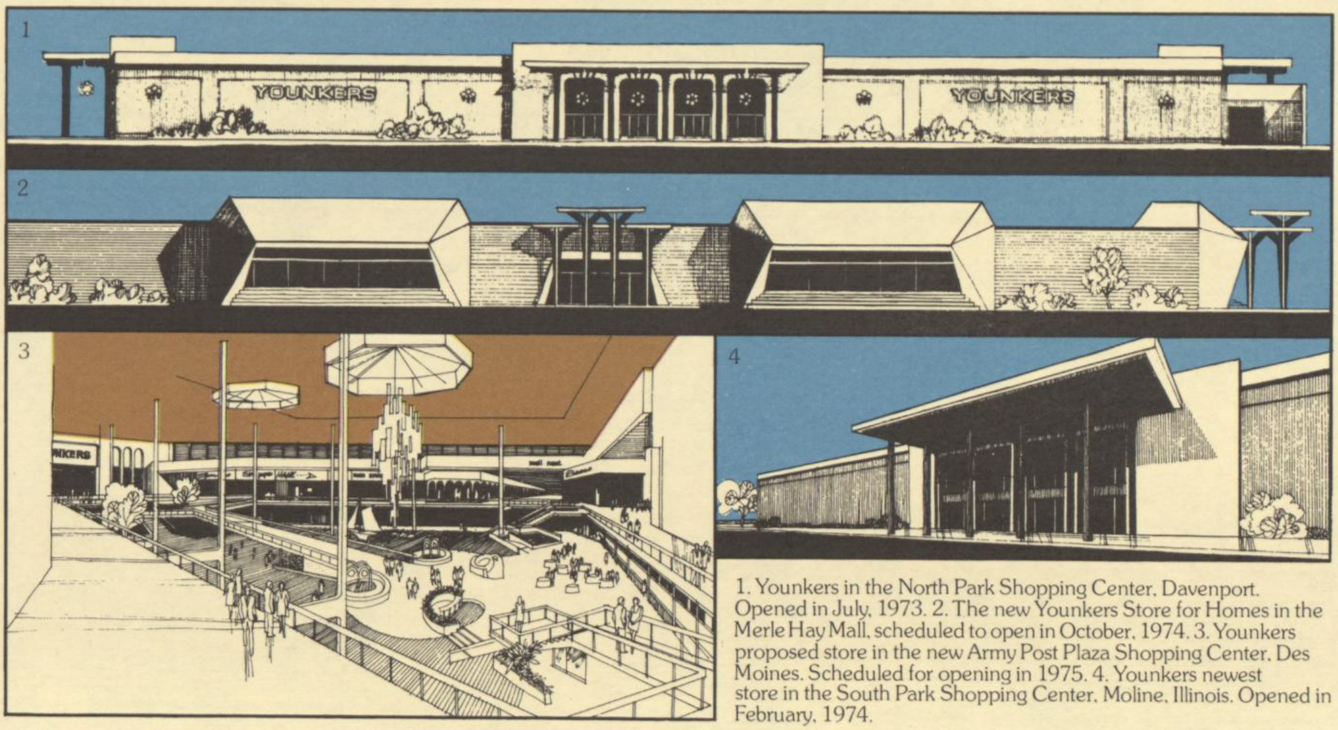
KENNETH J. McCARTHY
Vice-President, Secretary and
Treasurer, and Director

WILLIAM FRIEDMAN, JR.
Vice-President
and Director

ROY RICHARDS
Vice-President
and Director

DIRECTORS: JOSEPH F. ROSENFIELD,* Chairman of the Executive Committee, MOREY SOSTRIN, Chairman of the Board, WILLIAM FRIEDMAN, SR.*, STANLEY B. FRIEDMAN, J. STUART KIRK, ROBERT J. MANDELBAUM, ROBERT LUBETKIN.
*Member of the Executive Committee

YOUNKERS IS EXPANDING



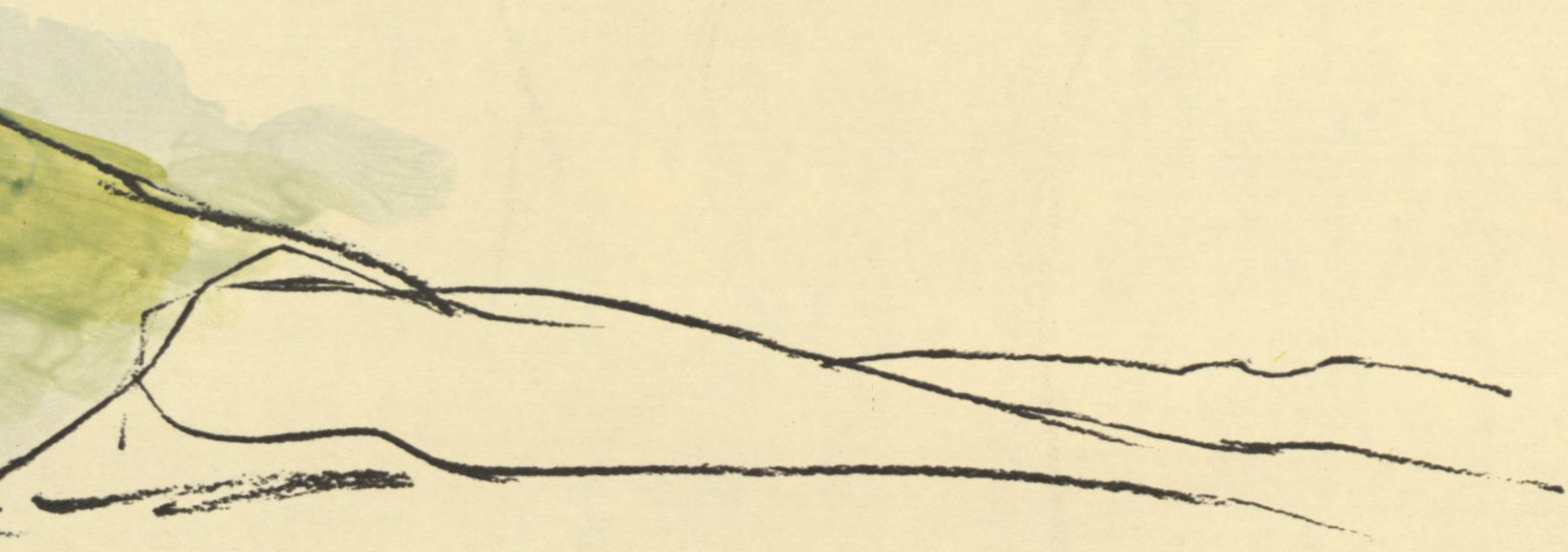
1. Younkers in the North Park Shopping Center, Davenport. Opened in July, 1973. 2. The new Younkers Store for Homes in the Merle Hay Mall, scheduled to open in October, 1974. 3. Younkers proposed store in the new Army Post Plaza Shopping Center, Des Moines. Scheduled for opening in 1975. 4. Younkers newest store in the South Park Shopping Center, Moline, Illinois. Opened in February, 1974.

STATEMENTS OF EARNINGS

Years ended January 31, 1974 and 1973

	1974	1973
Net sales, including leased departments	$100,074,443	$90,766,273
Costs and expenses:		
Cost of goods sold	64,013,691	57,911,486
Buying, selling and administrative expenses (less credit service charges) exclusive of items listed below	7,107,471	5,906,807
Salaries and wages	14,972,762	14,066,195
Property rentals, net	1,961,248	1,659,289
Depreciation	1,554,098	1,415,361
Taxes other than income	2,003,646	1,843,474
Contribution to profit sharing trust	867,057	812,155
Interest and financing, primarily on long-term debt	565,383	567,504
	93,045,356	84,182,271
Operating income	7,029,087	6,584,002
Other income (note 2):		
Gain on sale of equity investment	—	1,924,875
Other, net including interest of $344,279 ($417,302 in 1973)	1,281,259	1,025,610
	1,281,259	2,950,485
Earnings before income taxes	8,310,346	9,534,487
Income taxes (note 3):		
Current	3,861,000	4,118,000
Deferred	255,000	198,000
	4,116,000	4,316,000
Net earnings	$ 4,194,346	$ 5,218,487
Earnings per common share	$2.67	$3.18

See accompanying notes to financial statements.



STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended January 31, 1974 and 1973

	1974	1973
Preferred stock — no change during year	$ 2,614,200	$ 2,614,200
Common stock — no change during year	5,427,712	5,427,712
Additional paid-in capital:		
Balance at beginning of year	1,225,954	1,178,704
Increase in carrying value, net of related income tax, of General Growth Properties	—	340,389
Transfer to reinvested earnings on disposition of partial investment in General Growth Properties (note 2)	(143,527)	(295,738)
Proceeds from sale of treasury stock over average cost	—	2,599
Balance at end of year	1,082,427	1,225,954
Reinvested earnings:		
Balance at beginning of year	35,912,665	31,205,263
Net earnings	4,194,346	5,218,487
Transfer from additional paid-in capital on disposition of partial investment in General Growth Properties (note 2)	143,527	295,738
	40,250,538	36,719,488
Deduct dividends:		
Serial preferred stock:		
5% cumulative series, $5 per share	70,000	70,000
Second 5% cumulative series, $5 per share	10,710	10,710
7% non-callable preferred stock, $0.70 per share	70,000	70,000
Common stock (note 2):		
Paid in cash for fractional shares	21,816	46,373
Paid in cash, $0.55 per share	802,450	—
Paid in shares of General Growth Properties:		
111,214 shares, net of related income taxes of $85,079 (market value of $2,048,225, $1.29 per share including cash for fractional shares)	—	319,740
98,307 shares, net of related income taxes of $99,295, declared and accrued in January, 1973 (market value of shares distributed in 1974 including cash for fractional shares $1,821,816, $1.15 per share)	—	290,000
	974,976	806,823
Balance at end of year	39,275,562	35,912,665
Cost of common shares in treasury:		
Balance at beginning of year, 6,315 shares (1973, 24,307 shares)	(116,900)	(449,960)
Shares sold during the year — none (1973, 17,992 shares)	—	333,060
Shares purchased during the year, 146,931 shares	(3,702,980)	—
Balance at end of year, 153,246 shares (1973, 6,315 shares)	(3,819,880)	(116,900)
Total stockholders' equity	$44,580,021	$45,063,631

See accompanying notes to financial statements.

BALANCE SHEETS

January 31, 1974 and 1973

ASSETS

	1974	1973
Current assets:		
Cash	$ 3,982,200	$ 3,677,407
Short-term investments	3,250,000	12,149,096
Marketable securities (quoted market 1974, $2,898,677)	2,541,970	1,361,230
Receivables, less allowance for doubtful receivables and unearned finance charges of $592,266 ($589,743 in 1973)	15,815,380	15,564,468
Merchandise inventories on hand and in transit, less provision for discounts in inventories, $625,701 ($581,271 in 1973)	18,628,891	16,887,498
Prepaid expenses	757,446	518,186
Total current assets	44,975,887	50,157,885
Investments (note 2)	6,180,809	4,305,479
Property, plant and equipment, at cost:		
Land	1,154,767	1,154,767
Buildings and improvements on owned properties	2,690,264	2,614,833
Buildings and improvements on leased properties	5,355,308	5,127,594
Furniture, fixtures and equipment	22,606,403	18,973,832
	31,806,742	27,871,026
Less accumulated depreciation	15,837,751	14,476,103
Net property, plant and equipment	15,968,991	13,394,923
Other assets	229,134	222,917
	$67,354,821	$68,081,204

LIABILITIES AND STOCKHOLDERS' EQUITY

	1974	1973
Current liabilities:		
Current installments of long-term debt	$ 634,000	$ 634,000
Accounts payable	5,118,453	4,317,271
Income taxes	1,957,591	2,459,756
Deferred income taxes	1,709,000	1,658,000
Accrued taxes other than income	1,309,304	1,336,811
Other accrued expenses	1,355,252	1,438,985
Total current liabilities	12,083,600	11,844,823
Long-term debt, excluding current installments (note 4)	8,020,000	8,654,000
Provision for self-insurance and deferred compensation	406,200	354,750
Deferred income taxes	2,265,000	2,164,000
Total liabilities	22,774,800	23,017,573
Stockholders' equity:		
Capital stock:		
Serial preferred stock of $100 par value per share. Authorized 22,058 shares; issued:		
5% cumulative series, 14,000 shares	1,400,000	1,400,000
Second 5% cumulative series, 2,142 shares	214,200	214,200
7% non-callable preferred stock of $10 par value per share, cumulative. Authorized and issued 100,000 shares	1,000,000	1,000,000
Common stock without par value. Authorized 2,500,000 shares; issued 1,600,115 shares	5,427,712	5,427,712
Additional paid-in capital	1,082,427	1,225,954
Reinvested earnings (note 4)	39,275,562	35,912,665
Cost of 153,246 common shares in treasury (6,315 in 1973)	(3,819,880)	(116,900)
Total stockholders' equity	44,580,021	45,063,631
Commitments (note 5)		
	$67,354,821	$68,081,204

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended January 31, 1974 and 1973

	1974	1973
Funds provided:		
Net earnings	$ 4,194,346	$ 5,218,487
Items which do not use (provide) working capital:		
Depreciation	1,554,098	1,415,361
Deferred income taxes	101,000	(23,000)
Provision for deferred compensation	51,450	44,500
Earnings from investments reported on equity method and limited partnerships	(117,114)	(575,696)
Contribution of long-term investment	—	27,864
Working capital provided by operations	5,783,780	6,107,516
Transfer current portion of long-term notes receivable to current assets	125,554	92,115
Shares of General Growth Properties distributed as a dividend	389,295	404,819
Return of capital dividend from General Growth Properties	86,248	—
Dividends received from General Growth Properties	—	774,638
Sale of treasury stock	—	335,659
Proceeds from sale of General Growth Properties shares, less $1,924,875 included in net earnings	—	471,375
Decrease in working capital	5,420,775	—
	$11,805,652	$ 8,186,122
Funds used:		
Purchase property, plant and equipment, net of normal trade-ins	$ 4,128,166	$ 2,012,945
Declare dividends	974,976	806,823
Purchase common stock of Heritage Communications, Inc.	—	287,100
Purchase common stock of Paul Harris Stores, Inc.	1,309,792	—
Invest in limited partnership; Becker Communications Associates	1,000,000	—
Purchase treasury stock	3,702,980	—
Transfer current portion of long-term debt to current liabilities	634,000	634,000
Other	55,738	22,935
Increase in working capital	—	4,422,319
	$11,805,652	$ 8,186,122
Changes in working capital:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ (8,594,303)	$ 4,417,534
Marketable securities	1,180,740	(110,536)
Receivables, net	250,912	1,186,216
Merchandise inventories	1,741,393	519,494
Prepaid expenses	239,260	18,203
	(5,181,998)	6,030,911
Increase (decrease) in current liabilities:		
Current installments of long-term debt	—	(100,000)
Accounts payable and accrued expenses	689,942	840,254
Income taxes	(502,165)	647,338
Deferred income taxes	51,000	221,000
	238,777	1,608,592
Increase (decrease) in working capital	$ (5,420,775)	$ 4,422,319

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

January 31, 1974 and 1973

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

(a) SHORT-TERM INVESTMENTS
Short-term investments, consisting of certificates of deposit, commercial paper and securities of the United States government and its agencies, are stated at cost which approximates market value.

(b) MARKETABLE SECURITIES
Marketable securities, consisting of corporate notes, debentures, common and preferred stocks, are stated at cost less amortization of bond premiums.

(c) ACCOUNTS RECEIVABLE
Consistent with industry practice, installment accounts receivable have been included in current assets, although approximately $212,000 ($435,000 in 1973) will become due after one year.

The allowance for doubtful receivables represents 3.0 percent (2.6 percent in 1973) of customer accounts receivable at year end, and is determined by historical loss experience and current analysis of receivable delinquencies.

Accounts are written off if a scheduled payment has not been received within six months of the due date or if the balance is more than twelve months delinquent, or if it is otherwise determined that the customer is unable to pay.

Unearned finance charges on installment accounts receivable are deferred and treated as a reduction of accounts receivable. Unearned finance charges are recognized in earnings on a pro rata basis as installment payments are received, and are treated as a reduction of buying, selling and administrative expenses in the statements of earnings.

(d) MERCHANDISE INVENTORIES
The valuation of merchandise inventories is determined by the retail inventory method which involves valuation of individual items at current selling prices and the reduction of the amounts so determined to approximate the lower of cost or market by the application of departmental markup ratios. Inventories are reduced by a provision for normal cash discounts.

(e) INVESTMENTS
Investments are stated at cost, except for material investments that qualify for the equity method of accounting.

(f) PROPERTY, PLANT AND EQUIPMENT
Depreciation expense is provided on the straight-line method over the estimated useful lives of the assets. Maintenance, repairs and renewals are charged against income. Betterments are capitalized and subsequently depreciated. The cost and accumulated depreciation of properties retired or otherwise disposed of are eliminated from the asset and accumulated depreciation accounts. Related profit or loss from such transactions is credited or charged to income.

Annual rates of depreciation used by the Company are as follows:

Buildings and improvements on owned properties	2%-5%
Buildings and improvements on leased properties	Lesser of lease period or useful life
Building equipment	$2\frac{1}{2}$%-10%
Furniture, fixtures and equipment	$6\frac{2}{3}$%-$33\frac{1}{3}$%

(g) PROVISION FOR SELF-INSURANCE AND DEFERRED COMPENSATION
The Company's policy is to provide on a current basis, as determined by the deductible amounts of insurance coverages, for losses arising from fire or other catastrophe.

The Company has employment contracts with two officers providing for benefits to be paid to them in installments upon retirement or, in event of death, to their beneficiaries. The present value of future compensation is provided for currently on a straight-line basis to date of retirement. The aggregate provision for these contracts at January 31, 1974, was $181,200 ($129,750 in 1973).

(h) STORE OPENING EXPENSE
The expenses relating to the opening of new stores are charged to operations when incurred.

(i) STOCK OPTION PLAN
During the year ended January 31, 1973, options for 17,992 shares, granted under a qualified stock option plan, were exercised by issuing shares out of treasury stock. At January 31, 1973 and 1974, no options were outstanding.

(j) EMPLOYEES' PROFIT SHARING PLAN
The employees' profit sharing retirement plan covers full-time employees who have five or more years of continuous service and who are under 66 years of age. The annual contribution, subject to specified limitations, is the larger of 10 percent of net profits of the Company as defined or an amount authorized by the board of directors.

(Continued next page)

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies and Related Matters, continued

(k) EARNINGS PER COMMON SHARE

Earnings per common share is computed by dividing net earnings after deducting preferred stock dividends, by the weighted average number of shares of common stock outstanding during the year.

The difference between earnings per common share, earnings per common and common equivalent share and earnings per common share assuming full dilution was insignificant for the year ended January 31, 1973. There were no common equivalent shares outstanding during the year ended January 31, 1974.

(2) INVESTMENTS

Investments consist of the following:

	1974	1973
General Growth Properties:		
Shares of beneficial interest	$2,782,778	$3,258,322
Note receivable, at cost	560,072	624,122
Paul Harris Stores, Inc., common stock	1,393,077	—
Becker Communications Associates, a limited partnership	1,026,978	—
Other, at cost	417,904	423,035
	$6,180,809	$4,305,479

The investment in General Growth Properties (GGP) is carried at equity in net assets at January 31, 1973, less dividends subsequently received in excess of Younker's share of GGP earnings. Equity in GGP earnings for the year ended January 31, 1973, amounted to $575,696. Dividends received during the year ended January 31, 1974, amounted to $679,532, of which $86,248 represented a return of investment and $593,284 represented income. Income from this investment is included in other income for both years.

In April, 1972, Younkers distributed as a dividend to its common shareholders 111,214 shares of GGP having an equity value of $404,819 and a market value of $18.00 per share or $2,001,852 in aggregate.

In conjunction with a public offering in December, 1972, Younkers sold 112,500 shares of its investment in GGP having an equity value of $471,375 and realized a gain of $1,924,875.

On March 26, 1973, Younkers distributed as a dividend to its common shareholders 98,307 shares of GGP plus cash for fractional shares. This dividend was declared and accrued in January, 1973 at Younkers carrying value of $389,295. The market value at date of distribution was $18.31 per share or $1,800,000 in aggregate.

As a result of the aforementioned dispositions by Younkers of its holdings of GGP, additional paid-in capital amounting to $143,527 ($295,738 in 1973) has been transferred to reinvested earnings, based upon the per share amounts of additional paid-in capital arising from its investment.

At January 31, 1974, Younkers held approximately 13 percent of the outstanding shares of GGP. The market value of GGP shares on the New York Stock Exchange at January 31, 1974, was $14.125 per share ($20.50 at January 31, 1973).

Younkers also holds a 6½ percent second mortgage note due from General Growth Properties in monthly installments to October 1, 1978. Current installments of $64,050 are included with current assets.

During the year ended January 31, 1974, Younkers acquired 87,972 shares of common stock of Paul Harris Stores, Inc., which represents 21.16 percent ownership thereof at January 31, 1974. This investment is being accounted for under the equity method, resulting in equity earnings of $90,136 for the current year reflected in other income.

The bid price of Paul Harris Stores, Inc., common stock on the national over-the-counter market at January 31, 1974, was $10.75 per share.

On February 26, 1973, Younkers invested $1,000,000 in the limited partnership of Becker Communication Associates, a cable television financing group formed by A. G. Becker & Co., Incorporated. Earnings from this investment for the year ended January 31, 1974, amounted to $26,978 and is included in other income.

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(3) INCOME TAXES (ALL DATA IN THOUSANDS)

Components of income tax expense for the two years ended January 31, 1974 and 1973, are as follows:

	1974			1973		
	United States Federal	State	Total	United States Federal	State	Total
Current	$3,341	$520	$3,861	$3,448	$670	$4,118
Deferred	235	20	255	183	15	198
	$3,576	$540	$4,116	$3,631	$685	$4,316

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statements purposes. The sources of these differences and the related tax effect of each are as follows:

	1974	1973
Accelerated depreciation	$ 86	$ 88
Installment method of accounting for deferred payment sales and unearned finance charges	51	221
Dividends representing return of capital	123	—
Undistributed earnings of investee companies	34	(86)
Other, net	(39)	(25)
	$255	$198

Total income tax expense for January 31, 1974 and 1973, differs from the amount of income tax expense computed by applying the normal United States Federal income tax rate of 48 percent to earnings before income taxes. The reasons for such differences are as follows:

	1974		1973	
	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings
Computed income tax, assuming a rate of 48 percent	$3,989	48.0%	$4,577	48.0%
Increases (reductions) in taxes resulting from:				
State income taxes, net of Federal income tax benefit	270	3.2	349	3.7
Benefit from income taxed at capital gains rate	(52)	(.6)	(474)	(5.0)
Investment tax credit	(140)	(1.7)	(69)	(.7)
Other, net	49	.6	(67)	(.7)
	$4,116	49.5%	$4,316	45.3%

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NOTES TO FINANCIAL STATEMENTS

(3) Income Taxes (all data in thousands) continued

Investment tax credit is recorded as a reduction of the provision for Federal income taxes in the year realized.

(4) LONG-TERM DEBT

Long-term debt consists of unsecured notes bearing interest at 5 percent and 6½ percent per annum, payable in 1974 through 1988. Maturities of principal for the five years ended January 31, 1979, are $634,000 per year.

Among the provisions of the loan agreements are restrictions on the payment of cash dividends and purchases of capital stock. At January 31, 1974, approximately $14,184,675 reinvested earnings was unrestricted as to such payments.

(5) LEASE COMMITMENTS (AMOUNTS IN THOUSANDS)

For disclosure purposes, the Company has classified lease arrangements as either "financing" or "operating" leases. A "financing" lease has been defined as one which, during the noncancellable lease period, either (i) covers 75 percent or more of the economic life of the property or (ii) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on the use of the assets involved.

The Company occupies certain stores and warehousing facilities and uses certain equipment under lease arrangements.

Total rental expense for the two years ended January 31, 1974, was as follows:

	Year ended January 31			
	1974		1973	
	Financing	Operating	Financing	Operating
Minimum rentals	$1,889	$ 23	$1,686	$ 64
Contingent rentals	328	—	209	—
Sublease rentals	(108)	(171)	(123)	(177)
	$2,109	$(148)	$1,772	$(113)

Contingent rentals paid to lessors of certain store facilities are determined on the basis of a percentage of sales in excess of stipulated minimums, and common area charges at shopping centers.

A summary of noncancellable long-term minimum lease commitments follows:

(Continued next page)

NOTES TO FINANCIAL STATEMENTS

(5) Lease Commitments (amounts in thousands) continued

	Type of property		Type of lease		
Year ending January 31	Real property	Equipment	Financing	Operating	Total commitment
1975	$ 1,937	$23	$ 2,036	$ (76)	$ 1,960
1976	1,943	23	2,036	(70)	1,966
1977	2,122	9	2,047	84	2,131
1978	2,156	—	2,044	112	2,156
1979	2,050	—	1,946	104	2,050
1980-1984	9,929	—	9,548	381	9,929
1985-1989	8,423	—	8,184	239	8,423
1990-1994	6,103	—	5,928	175	6,103
After 1994	10,949	—	10,583	366	10,949

Minimum rental commitments for real property have been reduced by the following sublease rentals:

Year ending January 31	Financing leases	Operating leases
1975	$72	$168
1976	72	168
1977	72	15
1978	24	—

All leases expire prior to 2018. The Company's real estate tax, insurance, and maintenance expense obligations vary from lease to lease. Minimum rental payments under gross leases have not been reduced by the amount of applicable executory expenses. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than amounts shown for 1975.

The present value, in aggregate, and by major categories of assets, of minimum lease commitments, applicable to non-capitalized "financing" leases at January 31, 1974 and 1973, were as follows:

	Interest Rates Used in Present Value Computation					
Asset Category	Weighted average		Range			
	1974	1973	1974	1973	1974	1973
Real property	6.2%	5.9%	5.5%-8.0%	5.5%-7.25%	$23,181	$19,939
Equipment	8.0%	8.0%	8.0%	8.0%	46	8
					23,227	19,947
Less present values of rentals to be received under subleases of real property	5.8%	5.5%	6.0%	5.5%	534	276
					$22,693	$19,671

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NOTES TO FINANCIAL STATEMENTS

(5) Lease Commitments (amounts in thousands) continued

If all non-capitalized "financing" leases were capitalized, related lease rights were amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, net earnings would have been reduced as follows:

	Year ended January 31	
	1974	1973
Amortization of lease right	$ 953	$ 858
Interest cost	1,220	1,083
Rent expense	(1,889)	(1,686)
	284	255
Income taxes	148	133
Pro forma reduction of net earnings	$ 136	$ 122

ACCOUNTANTS' REPORT

BOARD OF DIRECTORS AND STOCKHOLDERS
YOUNKER BROTHERS, INC.:

We have examined the balance sheets of Younker Brothers, Inc. as of January 31, 1974 and 1973 and the related statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Younker Brothers, Inc. at January 31, 1974 and 1973 and the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 22, 1974
Des Moines, Iowa

YOUNKERS PROJECTIONS FOR THE FUTURE

Satisfaction always. It's what Younkers is all about. "Satisfaction Always" is Younkers policy. It's the way we started, the way we grew, and the way we'll get where we're going. It's made us one of the leading merchandising operations in the entire United States.

Spacious new Younkers stores are now open in the growing Quad Cities. One in Davenport and another in Moline. These and our existing store in Bettendorf give us a firm foothold in this lucrative market. In all, twenty-two stores. Sales, over $100 million.

Whatever the fashion excitement, you'll find it at Younkers. Thousands attend the scheduled showings featuring the finest labels in the world of fashion.

Quality is sometimes a difficult thing to maintain in the face of today's discount pricing — but we maintain it. Our advertising constantly repeats our policy, "We will not knowingly be undersold." We believe it's a statement that meets competition and maintains the public confidence.

You might say we're a full service department store group. Fashion. Quality. Service. Price. It's how we relate "Satisfaction Always" to our customers.

We like to think of our relationships with resources as partnerships based on mutual growth and on joint development of the vast Midwest potential.

At Younkers we are downright eager about the future. Our long-standing policy of promoting management and supervisory talent from within our own organization has always provided Younkers with strong, innovative leadership.

An institution closely involved in every aspect of life in our wide Midwest community. In the burgeoning cities and rich rural areas of America's heartland, people of every age, of every kind, are involved in a love affair with Younkers. And we work hard to keep this feeling of affection alive and justifed.

Contrary to much opinion back East and in the far West our part of the world is mainly urban, and mainly industrial. In Iowa, for example, there are nearly 3 million people in over 950,000 households, and 37 percent of them in cities of over fifty thousand. Of the nation's five hundred largest manufacturing concerns a fourth of them have plants in Iowa.

Four fifths of our total income is from industrial sources. And our income is considerable. Total effective buying income in Iowa climbed to over 10½ billion dollars in 1973 — up 2 billion from 1969.

Retail buying in 1973 totaled over six and a half billion dollars — and that doesn't include the retail markets we've moved into in Illinois and Nebraska.

Younkers today is big. Twenty-two stores in 18 major metropolitan areas. One million, six hundred thousand square feet of space. Operating costs of $19,000,000. There are over 4,000 Younkers employees.

Younkers has one of the lowest management turnover rates in the country, partly the result of the generous profit sharing plan.

Outstanding benefits, thorough training and opportunities for wide experience, plus the excitement of being on the winning team, attract top men and women to Younkers.

Our men and women contribute not only to our organization but to the entire community.

In a recent poll of Des Moines residents, Younkers headed the list of businesses and organizations most influential in community affairs.

In a word, we plan to grow. In terms of dollars and cents, our goal is to double our sales in the next ten years.

We've done a lot of things right during our long and successful history — and there are still a lot of right things to do.

YOUNKERS
DES MOINES, IOWA 50306